

Republic of the Philippines  
**ENERGY REGULATORY COMMISSION**  
San Miguel Avenue, Pasig City



IN THE MATTER OF THE  
APPLICATION FOR APPROVAL OF  
THE TRANSLATION INTO  
DISTRIBUTION RATES OF  
DIFFERENT CUSTOMER CLASSES  
FOR THE FIRST REGULATORY  
YEAR OF THE ERC-APPROVED  
ANNUAL REVENUE REQUIREMENT  
FOR MACTAN ELECTRIC  
COMPANY, INCORPORATED  
(MECO) UNDER THE  
PERFORMANCE BASED  
REGULATION (PBR) FOR THE  
REGULATORY PERIOD 2009-2013

ERC CASE NO. 2009-008 RC

MACTAN ELECTRIC COMPANY, INC.  
(MECO),

Applicant.

x-----x

DOCKETED

Date: APR 15 2009

By: *W*

**DECISION**

Before the Commission for resolution is the application filed on February 6, 2009 by Mactan Electric Company, Incorporated (MECO) for approval of the translation into distribution rates of its different customer classes for the first regulatory year of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the regulatory period 2009-2013.

In the said application, MECO alleged, among others that:

1. Its opening Maximum Average Price (MAP) which was approved by the Commission for the First Regulatory Year of the Second Regulatory Period (MAP<sub>2010</sub>) as set forth in the Final Determination (FD) dated December 15, 2008, and as amended by the Order dated February 2, 2009 is PhP0.999/kWh.

*[Handwritten signatures]*

2. Based on the said FD and Order, it has converted the MAP<sub>2010</sub> into a distribution rate structure as follows:

**MECO – PROPOSED RATES**

	Residential	Commercial	Industrial	Bulk	St. Lighting	Pub. Bldgs.
Distribution Charge (PhP/kw)			140.1022	148.6955		
Distribution Charge (PhP/kwh)	0.7299	0.7299	0.2200	0.2000	0.7299	0.7299
Supply Charge (PhP/mo./cust.)		40.6523			40.6523	
Supply Charge (PhP/kW)			98.1361	98.2755		
Supply Charge (PhP/kWh)	0.2819					0.0204
Metering Charge (PhP/mo./cust.)	5.00	43.04	183.83	3,380.29	54.71	54.70
Metering Charge (PhP/kWh)	0.2554					

The conversion was effected in accordance with the Uniform Filing Requirements (UFR), the relevant sections of the Rules for Setting Distribution Wheeling Rates (RDWR), as amended, and the methodology described in Article V of the Distribution Services and Open Access Rules (DSOAR). MECO used in its calculations the information contained in the Final Determination of December 15, 2008 and the Order of February 2, 2009.

3. The approval of the instant application will allow it to fulfill its obligations under the PBR and avoid irreparable losses, which will ultimately result in the deterioration of its services, to the damage, and prejudice of the public, in general, and its consumers, in particular.
4. Thus, it prays, after due notice and hearing, that this application be approved and that it be authorized to adopt and implement the proposed distribution rate structure, as follows:

	Residential	Commercial	Industrial	Bulk	St. Lighting	Pub. Bldgs.
Distribution Charge (PhP/kw)			140.1022	148.6955		
Distribution Charge (PhP/kwh)	0.7299	0.7299	0.2200	0.2000	0.7299	0.7299
Supply Charge (PhP/mo./cust.)		40.6523			40.6523	
Supply Charge (PhP/kW)			98.1361	98.2755		
Supply Charge (PhP/kWh)	0.2819					0.0204
Metering Charge (PhP/mo./cust.)	5.00	43.04	183.83	3,380.29	54.71	54.70
Metering Charge (PhP/kWh)	0.2554					

*(Handwritten signatures and initials)*

Having found said application sufficient in form and in substance with the required fees having been paid, an Order and a Notice of Public Hearing, both dated February 6, 2009, were issued setting the case for initial hearing, expository presentation, pre-trial conference and evidentiary hearing on February 20, 2009.

MECO was directed to cause the publication of the Notice of Public Hearing, at its own expense, twice (2x) for two (2) successive weeks in two (2) newspapers of general circulation in the Philippines, with the date of the last publication to be made not later than ten (10) days before the scheduled date of initial hearing. It was also directed to inform the consumers within its franchise area, by any other means available and appropriate, of the filing of the instant application, their reasons therefor, and of the scheduled hearing thereon.

The Office of the Solicitor General (OSG), the Commission on Audit (COA) and the Committees on Energy of both Houses of Congress were furnished with copies of the Order and the Notice of Public Hearing and were requested to have their respective duly authorized representatives present at the initial hearing.

Likewise, the Offices of the City Mayor of Lapu-Lapu City, the Municipal Mayor of Cordova and the Provincial Governor of Cebu were furnished with copies of the Order and the Notice of Public Hearing for the appropriate posting thereof on their respective bulletin boards.

On February 16, 2009, MECO submitted its "Pre-Trial Brief".



During the February 20, 2009 initial hearing of this case, only MECO appeared. No intervenor/oppositor appeared nor was there any intervention/opposition registered.

In the said hearing, MECO presented its proofs of compliance with the Commission's posting and publication of notice requirements which were duly marked as Exhibits "A" to "O-6", inclusive. Thereafter, it conducted an expository presentation of its application.

Subsequently, the Commission conducted a pre-trial conference.

At the termination of the pre-trial conference, MECO presented the following witnesses: a) Engr. Gilbert O. Pagobo, its General Manager; b) Ms. Grace F. Ferrer, its Accounting Supervisor; c) Engr. Eddie Plando, its Chief Operations Engineer; and d) Engr. Juanito O. Tolentino, Jr., its System Data Administrator.

The testimonies of the foregoing witnesses were offered to prove that: a) the figures used in the determination of MECO's MAP for the first regulatory year of the regulatory period 2009-2013 as well as the conversion of the same into distribution rates of its different customer classes were all derived from its Final Determination dated December 15, 2008, as amended by the Order dated February 2, 2009, its UFR and the data prescribed in the RDWR; and b) the determination of the MAP for the first regulatory year and its conversion are in accordance with the guidelines and methodology set forth in the UFR, RDWR and DSOAR.



In the course of their respective direct examinations, the witnesses identified various documents in support of the application. Said documents were duly marked as exhibits.

The said witnesses were, likewise, required to address the clarificatory questions propounded by the Commission.

On March 9, 2009, MECO filed its "Formal Offer of Exhibits" which is hereby admitted for being relevant and material to the final resolution of this application.

## DISCUSSION

In the Order dated February 2, 2009, MECO was directed to file its application for the translation of the approved MAP for the regulatory year 2010 into distribution rate structures on or before February 6, 2009.

The Commission set MECO's MAP for the regulatory year 2010 at PhP0.999/kWh. There is an increase of PhP0.037/kWh from its existing average distribution rate for the year 2008 of PhP0.962/kWh, or 3.8%.

Thus, in the instant application, MECO converted the MAP<sub>2010</sub> into the distribution rates as follows:



**Table 1: MECO's Proposed Distribution Rate Schedule  
 for the Regulatory Year 2010**

	Units	Existing (PhP)	Proposed (PhP)
<b>DISTRIBUTION</b>			
Residential	kWh	0.7169	0.7299
Commercial	kWh	0.5316	0.7299
Industrial	kWh	0.1828	0.2200
	kW		140.1022
Bulk Power	kWh	0.2009	0.2000
	kW		148.6955
Public Buildings	kWh	0.5216	0.7299
Streetlights	kWh	0.6127	0.7299
<b>SUPPLY</b>			
Residential	kWh	0.1046	0.2819
Commercial	Cust.		40.6523
Industrial	kW	150.03	98.1361
Bulk Power	kW	150.03	98.2755
Public Buildings	kWh	0	0.0204
Streetlights	Cust.	0	40.6523
<b>METERING</b>			
Residential	kWh	0.3383	0.2554
	Cust.	5.00	5.00
Commercial	Cust.	40.90	43.04
Industrial	Cust.	42.47	183.83
Bulk Power	Cust.	118.43	3,380.29
Public Buildings	Cust.	41.10	54.70
Streetlights	Cust.	55.35	54.71
<b>AVERAGE TOTAL RATE</b>	<b>kWh</b>	<b>0.962</b>	<b>0.999</b>

The Annual Revenue Requirement (ARR) is the basis for the derivation of the MAP. MECO prepared the factors that would functionalize the annual revenue requirement into distribution, supply and metering charges.

It converted the MAP in accordance with the UFR, the relevant provisions of the RDWR, as amended, and the methodology described in Article V of the DSOAR.

During the hearing, MECO was directed to submit, among others, its proposed lifeline rate and level. In compliance therewith, on March 24, 2009, MECO filed its "Submission". Based on its February 2009 frequency distribution of Residential end-users, MECO proposed a lifeline subsidy rate of **PhP0.0643/kWh** for its non-lifeline customers and a lifeline rate discount for its marginalized customers up to 65 kWh consumption level, as shown below:

**Table 2: Proposed Lifeline Level and Discount**

kWh Consumption	Per Approved Unbundled Rates	Per Application
	Level of Discount	
20 and below	50%	50%
21-25	45%	45%
26-30	40%	40%
31-35	35%	35%
36-40	30%	30%
41-45	25%	25%
46-50	20%	20%
51-55	15%	15%
56-60	10%	10%
61-65	5%	5%
Subsidy Rate to Non-Lifeline Customers	PhP0.0528/kWh	PhP0.0643/kWh

MECO claimed that the number of end-users that will benefit from the discounts represents twenty three percent (23%) of the total number of Residential customers, while the kWh consumption represents six percent (6%) of the total kWh sales for the month of February 2009.

**1. Translation of MAP<sub>2010</sub> Into Distribution Tariffs**

The rates applied for by MECO were thoroughly reviewed and evaluated by the Commission. The instant application was found to be in accordance with

Handwritten signatures and initials are present at the bottom of the page, including a large signature on the left, three smaller signatures in the center, and a signature on the right.

the FD dated December 15, 2008 and in conformity with the requirements set forth in the RDWR.

However, MECO failed to determine if the rates were within the side constraint limit set by the Commission in the FD. In this regard, MECO was directed to submit a new customer class on a per voltage level and use this as its basis in calculating its side constraints.

MECO submitted its revised rate structure on a per voltage level as illustrated below:

**Table 3: The Regulatory Year 2010 Rate Structure  
 Converted to Voltage Levels**

	Units	Proposed (PhP)
<b>Distribution</b>		
Residential connected to 230V	kWh	0.7264
Non-Residential connected to 230V	kWh	0.7211
Industrial customers		
13.8kV with less than 1MW demand	kWh	0.2200
	kW	142.5811
13.8kV with more than 1 MW demand	kWh	0.2000
	kW	151.1744
<b>Supply</b>		
Residential connected to 230V	kWh	0.2252
Non-Residential connected to 230V	Cust.	155.7354
Industrial customers		
13.8kV with less than 1MW demand	kW	98.1361
13.8kV with more than 1 MW demand	kW	98.2755
<b>Metering</b>		
Residential connected to 230V	kWh	0.2554
	Cust.	5.00
Non-Residential connected to 230V	Cust.	43.6769
Industrial customers		
13.8kV with less than 1MW demand	Cust.	183.8293
13.8kV with more than 1 MW demand	Cust.	3,380.2851
<b>AVERAGE TOTAL RATE</b>	<b>kWh</b>	<b>0.999</b>

Handwritten signatures and initials are present at the bottom of the page, including a large signature on the left, three smaller signatures in the center, and a signature on the right.

MECO, likewise, provided the Commission with its side-constraint calculations, as indicated in table below<sup>1</sup>.

**Computation of Side Constraints on Proposed Maximum Distribution Wheeling Rates**

$$\frac{((FCR_{k,t}/FQ_{k,t})-S_t) - ((CR_{k,t-1}/AQ_{k,t-1})-S_{t-1})}{(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}} \leq (CWI_t + SC_t)$$

$\leq (9.4\% + 21.11\%)$

$\leq 30.51\%$

Customer Class	$(FCR_{k,t}/FQ_{k,t})-S_t$	$(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}$	% Increase	
230 V customers - Residential	1.0886	1.0083	7.96%	Within Side Constraints
230 V customers - Non-Residential	0.9853	0.7913	24.51%	Within Side Constraints
13.8 kV customers w/ demand less than 1 MW	0.8605	0.9863	-12.75%	Within Side Constraints
13.8 kV customers w/ demand greater than 1 MW	0.8559	0.9379	-8.74%	Within Side Constraints
<b>Total</b>	<b>0.9801</b>	<b>0.9619</b>	<b>1.89%</b>	Within Side Constraints

Customer Class	$FCR_{k,t}$	$FQ_{k,t}$	$S_t$	$(FCR_{k,t}/FQ_{k,t})-S_t$
230 V customers - Residential	119,280,257.75	109,570,390.81	0	1.0886
230 V customers - Non-Residential	33,050,728.66	33,543,164.26	0	0.9853
13.8 kV customers w/ demand less than 1 MW	56,165,828.48	65,271,577.37	0	0.8605
13.8 kV customers w/ demand greater than 1 MW	29,299,726.94	34,232,353.98	0	0.8559
<b>Total</b>	<b>237,796,541.83</b>	<b>242,617,486.43</b>	<b>0</b>	<b>0.9801</b>

Customer Class	$CR_{k,t-1}$	$AQ_{k,t-1}$	$S_{t-1}$	$(CR_{k,t-1}/AQ_{k,t-1})-S_{t-1}$
230 V customers - Residential	96,426,244.28	95,627,792.27	0	1.0083
230 V customers - Non-Residential	24,434,351.73	30,877,351.61	0	0.7913
13.8 kV customers w/ demand less than 1 MW	70,873,904.61	71,859,366.51	0	0.9863
13.8 kV customers w/ demand greater than 1 MW	36,016,251.32	38,400,479.61	0	0.9379
<b>Total</b>	<b>227,750,751.94</b>	<b>236,764,990.00</b>	<b>0</b>	<b>0.9619</b>

**Note:**

- Schedule 4: 230 V customers - Residential
- Schedule 3: 230 V customers - Non-Residential
- Schedule 2: 13.8 kV customers w/ demand less than 1 MW
- Schedule 1: 13.8 kV customers w/ demand greater than 1 MW

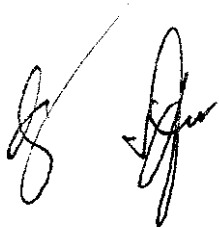
<sup>1</sup> MECO tested the possible breaching of the side constraints against a voltage-based distribution rate schedule. As a result, the Public Building and Streetlight categories were lumped together with Commercial customers as 230 V Non-Residential customers. In MECO's proposed rate schedule (Table 1), these groups are, however, treated separately

It is worth mentioning that the Commission encourages the distribution utilities (DUs) to come up with voltage-based rates consistent with the DSOAR. Having this kind of rate schedule is more reflective of true cost in serving the end-users. Further, it is an appropriate customer segmentation considering that the allocation factor is also dependent on demand. MECO distributes electricity to consumers at 230 V and 13.8 kV. With the approved customer class of MECO, its Residential customers will enjoy slightly lower rates using the voltage based rates. Thus, the Commission deems it prudent to approve a voltage-based rate.

In terms of the RDWR, side constraints apply to annual rate increases for any single rate category. This is based on the CWI-factor and an allowance made in the FD. MECO calculated the increase limit for the regulatory year 2010 rates at CWI plus 3.8%, which the Commission allowed in the said FD.

From the foregoing, the proposed rates would not breach any side constraint. Further, the overall expected revenue from these rates, based on current sales forecasts, would not breach the allowed MAP<sub>2010</sub>.

In deriving the rates, MECO adhered to the UFR. The functionalization and allocation factors were reasonably structured and appropriately founded and supported by analysis. While MECO did not apply sophisticated techniques, such as activity-based costing to derive the proportion of costs that should be allocated to various supply functions, the Commission found MECO's approach



(which relies on an assessment of assets allocated to various service functions and further breaking the costs down according to factors such as non-coincident peak demand or energy consumption) to be reasonable, pragmatic and sufficiently justifiable.

These allocation schedules and the overall rate-calculations were also thoroughly examined by the Commission for accuracy and were found to be acceptable.

## 2. Lifeline Rate and Level

At present, the consumers of MECO consuming 0-20 kWh per month enjoy a fifty percent (50%) discount in their rates.

MECO proposed a lifeline level similar to its approved rate unbundling Decision which consists of Residential customers consuming up to 65 kWh. It recalculated its lifeline rate using data for the month of February 2009.

In computing the lifeline rates, the Commission made reference to its earlier Decision dated November 10, 2008 in ERC Case No. 2008-016 RC [In the Matter of the Application for Approval of the New Lifeline Rate for the Marginalized End-Users in Accordance with the Provisions of Sections 43(j) and 73 of Republic Act No. 9136 and the Implementing Rules and Regulations, Bureau of Trade Regulation and Consumer Protection-Department of Trade and Industry – Applicant] wherein it took cognizance of the fact that the public is in for hard times in view of the pervading global financial crises. It, likewise,

recognized its mandate to protect the interest of the consumers insofar as they are affected by the rates. Consequently, it decided to grant a one hundred percent (100%) discount to Residential customers consuming 0-20 kWh and maintain the level of kWh consumption threshold so that no customer previously enjoying a discount would be deprived thereof as a result of the new lifeline structure.

Thus, the Commission deems it necessary to modify MECO's lifeline structure.

For purposes of determining the lifeline consumption thresholds and corresponding discounts for MECO, the Commission made a comparison between MECO's unbundled and proposed rates, as follows:

**Table 4: Lifeline Rate and Level**

kWh Consumption	Per Approved Unbundled Rates	Per Proposed	Approved Consumption Threshold and Discount Levels	
	Level of Discount		kWh Consumption	Level of Discount
20 and below	50%	50%	20 and below	100%
21-25	45%	45%	21-25	50%
26-30	40%	40%	26-30	40%
31-35	35%	35%	31-35	30%
36-40	30%	30%	36-40	20%
41-45	25%	25%	41-45	15%
46-50	20%	20%	46-50	10%
51-55	15%	15%	51-55	10%
56-60	10%	10%	56-60	5%
61-65	5%	5%	61-65	5%
Subsidy Rate to Non-Lifeline Customers	PhP0.0528/kWh	PhP0.0643/kWh	Subsidy Rate to Non-Lifeline Customers	PhP0.0963/kWh


Handwritten signatures and initials are present at the bottom of the page, including a large signature on the left and several smaller initials or signatures on the right.

With the implementation of the new lifeline structure, Residential consumers of MECO consuming 0-20 kWh per month will enjoy a one hundred percent (100%) discount in their rates, subject only to the payment of a PhP5.00/month metering charge.

**WHEREFORE**, the foregoing premises considered, the application for approval of the translation into distribution rates of its different customer classes for the first regulatory year of the ERC-approved annual revenue requirement under the Performance Based Regulation (PBR) for the regulatory period 2009-2013 filed by Mactan Electric Company, Incorporated (MECO) is hereby **APPROVED** with modification.

Accordingly, MECO is hereby directed to implement, starting May 1, 2009, its approved Distribution, Supply and Metering Charges, as follows:

*(This portion is intentionally left blank.)*



	Units	Approved Rates for the Regulatory Year 2010 (PhP)
<b>DISTRIBUTION</b>		
Customers connected to 230 V		
Residential	kWh	0.7264
Commercial	kWh	0.7211
Public Buildings	kWh	0.7211
Streetlights	kWh	0.7211
Customers connected to 13.8 kV		
Industrial with less than 1 MW demand	kWh	0.2200
	kW	142.58
Bulk Power with more than 1 MW demand	kWh	0.2000
	kW	151.17
<b>SUPPLY</b>		
Customers connected to 230 V		
Residential	kWh	0.2252
Commercial	Cust.	155.74
Public Buildings	Cust.	155.74
Streetlights	Cust.	155.74
Customers connected to 13.8 kV		
Industrial with less than 1 MW demand	kW	98.14
Bulk Power with more than 1 MW demand	kW	98.28
<b>METERING</b>		
Customers connected to 230 V		
Residential	kWh	0.2554
	Cust.	5.00
Commercial	Cust.	43.68
Public Buildings	Cust.	43.68
Streetlights	Cust.	43.68
Customers connected to 13.8 kV		
Industrial with less than 1 MW demand	Cust.	183.83
Bulk Power with more than 1 MW demand	Cust.	3,380.29
<b>AVERAGE TOTAL RATE</b>	<b>kWh</b>	<b>0.999</b>


Handwritten signatures and initials are present at the bottom of the page, including a large signature on the left, a signature in the center, initials 'RS' on the right, and another signature on the far right.

MECO is further directed to implement its revised lifeline levels and corresponding discounts and subsidy, as follows:

kWh Consumption	Level of Discount
20 and below	100%
21-25	50%
26-30	40%
31-35	30%
36-40	20%
41-45	15%
46-50	10%
51-55	10%
56-60	5%
61-65	5%
Subsidy Rate to Non-Lifeline Customers	PhP0.0963/kWh

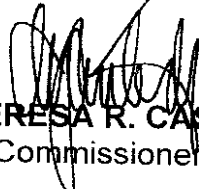
**SO ORDERED.**

Pasig City, March 30, 2009.

  
**ZENaida G. CRUZ-DUCUT**  
Chairperson

  
**RAUF A. TAN**  
Commissioner

  
**ALEJANDRO Z. BARIN**  
Commissioner

  
**MARIA TERESA R. CASTAÑEDA**  
Commissioner

  
**JOSE C. REYES**  
Commissioner

*Handwritten marks: a large 'X' and a checkmark.*

Copy Furnished:

1. Mactan Electric Company, Incorporated (MECO)  
Sangi Road, Pajo, Lapu-lapu City, Cebu
2. Quaison Makalintal Barot Torres Ibarra & Sison  
Attn: Atty. Manuel L.M. Torres  
Atty. Miguel K. Mathay  
*Counsel for Applicant*  
21<sup>st</sup> Floor, Robinsons-Equitable Tower,  
4 ADB Avenue corner Poveda Street,  
1605 Ortigas Center, Pasig City
3. Office of the Solicitor General  
134 Amorsolo Street, Legaspi Village, Makati City
4. Commission on Audit  
Don Mariano Marcos Avenue, Diliman, Quezon City
5. Senate Committee on Energy  
House of Senate  
GSIS Building, Roxas Boulevard, Pasay City
6. House of Representatives Committee on Energy  
House of Representatives  
Batasan Hills, Quezon City
7. Office of the City Mayor  
Lapu-Lapu City, Cebu
8. Office of the Municipal Mayor  
Cordova, Cebu
9. Office of the Governor  
Province of Cebu
10. Mr. Edgardo G. Lacson  
President  
Philippine Chamber of Commerce and Industry (PCCI)  
3<sup>rd</sup> floor, ECC Building, Se. Gil Puyat Avenue, Makati City